PROJECT 10

Actuarial Report

on

Proposed Agency Retirement System

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PROJECT 10

Actuarial Report

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I. PURPOSE AND SUMMARY

The purpose of this report is to set out the results of an actuarial study and valuation of the proposed agency retirement system. The actuarial valuation brought out certain indices which may be useful in comparing the relative cost of the proposed agency retirement system with that of the Federal Civil Service Retirement System. A summary of these indices is as follows:

System (1)	Relative % of Payroll Cost 1/ (2)	Cost Index 2/ (3)
A. Civil Service Retirement System for all covered employees (average attained age 43)	19.5% 3/	100%
B. Civil Service Retirement System for Project 10 Agency employees (average attained age 35)	16.4%	84%
C. Proposed Agency Retirement System for Identified Group and Civil Service for the balance	18.6%	95%
D. Proposed Agency Retirement System for all Agency Employees	22.6%	116%

1/ Normal Cost (employee and employer portion) plus interest @ 3% on the deficiency for the non-retired employees. The methodology is explained in more detail later on in the report.

2/ Related to Civil Service Retirement System at 100%.

3/ This is 18.9% after taking into account the assets on hand, per the Thirty-Seventh Annual Report of the Board of Actuaries of the Civil Service Retirement System for the Fiscal Year Ended June 30, 1957.

The above indicated cost indices are based on the factors used in valuing the Civil Service Retirement System. To test the appropriateness of these indices

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for the Project 10 Agency group, the separation experience of the last three years (1956, 1957 and 1958) was analyzed along with the average salaries by age groups in 1958, and on the basis of this analysis certain valuation factors were developed to value the main benefits of the proposed agency retirement system. Following essentially the same methodology used in applying the Civil Service Retirement System factors, but with valuation factors derived from certain experience made available, we find that the proposed agency retirement system cost would come to 29.5% of the covered payroll. This compares with the 22.6% factor noted above, and the differenc in cost indices is largely attributable to the higher salary scale used for the Project 10 Agency as compared with that used in valuing the Civil Service Retirement System.

Another aspect of this study is to comment on the proposed agency retirement system, and these comments are set out in the next section hereof.

II. COMMENTS ON PROPOSED AGENCY RETIREMENT SYSTEM

A memorandum dated 14 July 1958 and labeled "Tentative Detailed Descriptio of Proposed Agency Retirement System" was made available for our consideration in connection with the determination of the cost indices. Also, the proposed 1958 amendments (not adopted) to the Foreign Service Act of 1946, as amended, as well as a 1 March 1957 and a 28 February 1957 Memorandum on proposed legislation for retirement benefits were made available. It was noted that the proposed agency retirement system is similar in many respects to the proposed 1958 amendments of the Foreign Service Act.

There appear to be two main objectives considered in connection with specifications of the proposed Agency Retirement System. The primary objective of proposing legislation was stated in the 28 February 1957 memorandum as being "to improve the service by providing retirement at an age earlier than that provided by

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the Civil Service System together with an 'augmented' annuity to those persons who have served extensively overseas with CIA." A secondary objective was stated in the 1 March 1957 memorandum, in a negative way, to the effect that the Bureau of the Budget is opposed to any formula which would "give CIA a situation substantially more generous than that of the Foreign Service, and permit earlier retirement with as little as one year overseas out of each four years of total service."

To accomplish the first of these objectives, and in some measure the second objective, the following represent the salient features of the proposed Agency Retirement System as outlined in the 14 July 1958 memorandum. Our comments follow each of these features.

A. Coverage restricted to true career employees and to certain contract employees.

<u>Comment</u>: It may be difficult to determine whether or not a person is in fact a <u>true</u> career employee until he has proved himself by serving a certain length of time. For example, under the Foreign Service Act as proposed in June, 1958, Section 803 (C) (1) appears to restrict eligibility to those officers or employees appointed by the Secretary of State who have completed at least ten years of continuous service in the Department's Foreign Service. This kind of restriction may also be desirable from an administrative standpoint if the proposed system is administered apart from the Civil Service Retirement System, as is the case with the Foreign Service Retirement System.

B. A retired employee under the proposed agency retirement system could accept employment elsewhere in the government with suspension of only

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such portion of his pension, which together with the balance of his pension and his salary would exceed his salary with the Agency at his time of retirement.

Comment: This would appear to give such a retired employee more of an incentive to find a job elsewhere in the government. However, the incentive for advancement beyond a certain point would be lacking. One technical question involved would be what kind of other pension he might be able to earn when working for another governmental agency? Could he be concurrently receiving a pension from a system and earning additional pension credit? Second, it is not clear what the status of his annuity might be if he goes to work outside of the government, and this also raises some interesting questions. For example, should such a retired employee's pension be reduced in the same way whether he works for the government or elsewhere? Third, if he goes back to work for the Agency, his pension appears to be discontinued until he retires again, and this poses more interesting questions. For example, would down-grading be preferable to selection-out from the standpoint of the Agency (or employee) in certain circumstances?

C. An employee who has attained age 50 after 20 or more years of service of which at least 10 have been overseas with at least five of them with the Agency, may retire, with the permission of the Director, on a pension of 2% of the final five-year average compensation per year of service up to 35 years of service.

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Comment: This has been designated as the [redacted] Formula." For 20 years of service a benefit of 40% of the final five

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year average pay would become payable, which appears to be a reasonable pension. However, it is of interest to note the 35-year limit on service, involving a 70% maximum pension, compared with an 80% maximum pension under the Civil Service Retirement System. Of course, the 70% limit is also in the Foreign Service System. However, it seems a little inconsistent, when trying to provide more in the way of pensions sooner to a particular group of employees, to set a lower maximum pension than might otherwise be provided through the more normal pension route.

D. Involuntary retirement after age 45 and 5 or more years of service with limited annuity (i.e., limited to 25% of pay) or after age 55 and 25 or more years of service (pension determined by 2% formula if the 5 - 10 requirement for overseas service is met, otherwise by the regular Civil Service formula).

Comment: An employee not meeting the 5 - 10 requirements for the 2% formula can be retired by the Director earlier than under the Civil Service System, which provides for involuntary retirement after age 50 and 20 years of service for a reduced benefit. An employee who has attained age 45 and has 20 years of service, for example, would get the 25% limiting pension by the proposed Agency formula. Also, would there be too sharp a break between benefits available to an employee who had attained age 55 with 25 years of service, as compared with the employee age 55 with 24 years of service, or an employee age 54 with 25 years of service at the time of involuntary retirement?

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In both of these latter two cases the 25% limit would seem to apply, whereas it would not apply in the age 55 and 25-year combination.

E. Involuntary retirement after 5 years of service but when under age 45 for a lump-sum settlement equal to one year's pay, or employee contributions with interest if greater.

<u>Comment</u>: In a few instances the value of the deferred vested benefit now available under the Civil Service System might be greater than one year's pay. However, the proposed benefit would probably be much more costly generally.

F. Compulsory retirement at age 60 (year-to-year extension to age 70 by Director possible).

<u>Comment</u>: This compares with age 65 and year-to-year extension for 5 years for career ambassadors or ministers, or age 60 with year-to-year extension for 5 years for other foreign service officers under the proposed Foreign Service Act.

Appendix A at the end of the report has been prepared to give a detailed side-by-side comparison of the Federal Civil Service System, the Foreign Service System, and the proposed Agency System and comments thereon, some of which comments have already been noted.

III. EMPLOYEE DATA

The employee data were made available in the form of four distributions by sex, age and service and for each "cell" the average annual compensation was shown. The break-down in data was determined first on the basis of those who might become qualified for the 2% formula benefits at age 50, within each of these two major groups the data were split by sex, and then for each of the four resulting groups the data were distributed by quinquennial age groups and service.

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To obtain the data, we understand that questionnaires were sent to the field, and individual personnel records were referred to in order to obtain lengths of service; in the Agency overseas, out of the Agency but within the government overseas, in the Agency in U. S. and out of the Agency but within the government in U. S. When almost 80% of the questionnaires were received from the offices that have the predominant amount of overseas service and about 90% of the balance of questionnaires were received, the data were analyzed from the standpoint of which employees might be expected to qualify for the 2% formula benefits at age 50. We estimated at this point that 100% returns could not affect the cost results by more than 2% of the figures derived for cost indices, as compared with cost results based on these data. This analysis was generally done by the departmental heads involved from rosters which were prepared in age order, on an individual basis for those attained 40 or over, and on a percentage basis for quinquennial age groups of those under age 40. Then by the use of IBM procedures those most likely to qualify for each of the respective age groups under 40, by reason of length of overseas service, were selected to be included with the identified group. Finally, the age and service distributions were prepared on the basis of an assumed [redacted] total work force. These distributions are included in Appendix B at the end of this report. Table 1 has been prepared from these distributions to show the characteristics of the data by age groupings. It is of some interest to note that the average age of the group is 35, as compared with an average age of 43 for the Civil Service group (this latter being based on 9-30-53 data). Since the average age of the Agency grou[p] being analyzed is eight years younger than that for the Civil Service covered group as a whole (actually there may be more of a differential on the basis of more up-to-date data), and since the age at employment is also generally younger for the Agency group, it is expected that the level of costs for comparable benefits would be much lower for the agency group than for the total Civil Service groups. This was brought out in items A and B set out in Section I of this report.

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A. Withdrawal Rates

Next, employee data were made available on a comparable basis with respect to terminations that took place in the years 1956, 1957 and 1958 (see Appendix B for the information made available). These terminations were adjusted in each of the years involved to conform to a work force of [redacted] employees, in order to be on a comparable basis with the data made available for the active group of employees. Then the terminations were analyzed in order to determine approximate withdrawal rates to use for valuation purposes. The withdrawal rates so derived were computed to reflect the probable financial experience of a pension plan, this being done in such a way that a person terminating after five years of service, for example, would be weighted five times that of a person terminating after only one year of service. The resulting rates of turnover used for the "experience" valuation are as follows:

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Table 2

Annual Withdrawal Rate per 1,000 Employees
(includes mortality)

Age (1)	Males (2)	Females (3)
22	65	210
27	44	130
32	31	88
37	21	62
42	13	42
47	8	26
52	7	16

A comparison of these rates with those used in the Civil Service valuation indicates that these rates are somewhat higher than certain of the Civil Service rates at the younger ages, mainly because of a technical difference in their

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construction, but at the higher ages when pension costs become more important there is no very significant difference in the respective sets of rates. The technical difference lies in our using the somewhat more simple aggregate approach in constructing the rates, as compared with the select and ultimate (ultimate after 3 or more years) approach used in the Civil Service rates.

B. Salary Scale

Since the benefits are to be based on the final five-year average earnings some analysis was made of the average earnings by age groups in order to obtain a salary scale which could be used for the purpose of estimating the appropriate final average earnings on which benefits will be based. Here we found the greatest departure from the comparable Civil Service factors, which may be illustrated as follows:

Table 3

Pro-Forma Ratio of Five Year Average

Earnings of Age 60 - 64 Group to Current Earnings

	Males		Females	
Current Age Group	Current Agency Data	Civil Service Salary Scale	Current Agency Data	Civil Service Salary Scale
25 - 29	2.50	1.29	1.20	1.13
30 - 34	1.50	1.18	1.15	1.08
35 - 39	1.40	1.11	1.10	1.05
40 - 44	1.30	1.07	1.05	1.03
45 - 49	1.20	1.04	1.02	1.02
50 - 54	1.10	1.02	1.01	1.01
55 - 59	1.05	1.01	1.00	1.005

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Since the current agency data are related much more closely to the differentials in average earnings by age group, which are higher than the Civil Service Salary Scale, it may be expected that the level of costs as we have determined it would be higher than when determined by the Civil Service factors. Thi in our opinion, is the most significant difference in the respective actuarial factors used for valuation purposes and is the main reason why we get a percentage of payroll cost of 29.5%, as compared with 22.6% for the proposed Agency Retirement System.

IV. ACTUARIAL METHODS

As already indicated, we have adopted as a cost criterion the normal cost plus interest at 3% on the deficiency. The assets recognized as being on hand to fund the Civil Service Retirement System appear to be sufficient to take care of the retired group of employees and to provide for the returns of employee contributions before retirement. As already indicated the June 30, 1957 valuation results for the Civil Service Retirement System indicated an 18.9% of payroll cost as compared with our figure of 19.5% which does not take into account any assets. Consequently, we felt that this relatively small reduction in costs attributable to assets could be ignored for the purpose of the cost indices derived and set out herein.

The normal cost represents the level annual percentage of earnings that would be required to fund on the average the given level of benefits for a person who enters the system and progresses through to retirement. Of course, the normal cost also includes some provision for those people who do not live through to retirement but terminate or die along the way with reduced benefits becoming available.

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The deficiency then represents an accumulation of normal cost amounts from the past that would now from an actuarial standpoint be in a fund if the plan had always been in existence, so that such fund together with interest thereon at the assumed rate plus the future normal cost payments will be sufficient to pay benefits as they fall due. In other words, the deficiency is tantamount to the accrued liability as of the date of valuation.

Because of the deferred nature of most pension benefits and because of the power of the government to levy taxes the government view point seems to be that the full deficiency of a pension plan, administered under its aegis, need not be matched by assets, particularly when these assets held by the government would be in the form of government bonds. In fact this thought was expressed recently by the President when he vetoed the bill (House Document No. 429, 85th Congress) which included a deficiency appropriation for the Civil Service System. The following statement is taken from his message to Congress:

> ". . . The Retirement Act promises to make certain payments under specified conditions and, regardless of the size of the balance in the retirement fund at any particular time, these benefits will be paid because the promise to do so is backed by the Government. To assume otherwise is to call into question the full faith and credit of the United States Government."

The factors and summary work sheets made available by Mr. Brown and Mr. Resor of the Civil Service Commission were used in connection with certain studies made by them in the course of the past several years. We understand that the basic data used for these studies was taken from certain sample studies. Also, it is understood that new data are being prepared on the basis of a census of government agencies, taken in 1958, and certain revisions will be made in the valuation factors which will then be used in making a more up-to-date valuation of the Civil Service System. The results of the valuation based on the work sheets and factors made available for our perusal have not been published. However, we

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reviewed the derivation of factors and work sheets, and then we tested the application of the various factors involved from the standpoint of reasonableness and technical accuracy. Next, we compared the percentage of payroll cost results with certain summaries that had been made in connection with the valuations. In order to avoid some of the intricacies introduced by the application of the factors to the agency data, we experimented with approximations until we had developed factors which produced results within 2% of the results as summarized on the basis of the application of the much more complex Civil Service factors to the Civil Service data. These approximate factors, which produced results within 2% of the results by the more complex Civil Service factors, were then used for the various computations which we have designated as being on the basis of the Civil Service factors.

A breakdown of the normal cost percentages of payroll cost and an indication of the past service cost is set out in more detail in Table 4. Although each of the component parts of the break-down are of less significance than the total, when compared with the Civil Service results, we have set them down since they may be useful as a guide for pricing possible changes in the proposed benefits.

V. ACTUARIAL ASSUMPTIONS

Several of the actuarial assumptions used for our valuation of the proposed Agency Retirement System have already been noted in connection with our analysis of the data in Section III hereof. These had to do with the turnover and salary scale assumptions. Other actuarial assumptions are as follows:

A. Interest - 3%, as assumed in the last Civil Service valuation.

B. Mortality - This is, of course, of more significance after retirement than before retirement, since before retirement the rate of mortality is mixed in with the turnover assumptions. We used an up-to-date (but not overly-conservative) mortality table, based on a group annuity experience through 1950 which was then

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Table 4

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Illustrative Costs as % of Payroll

Based on Civil Service Actuarial Assumptions unless in Parentheses
(Figures in parentheses on basis of actuarial assumptions related more to 1956-58 turnover experience of group and 1958 differentials in pay by age groups)

	Federal Civil Service Retirement System		Proposed Agency Retirement System			Proposed Agency Retirement System for Identified Group and Civil Service for the Rest 1/
	All Employees	Project 10 Agency	Identified Group	Balance of Group	Total 1/	
1. Normal Cost for Age Benefit	8.94%	8.28% (12.13)	13.12% (21.15)	11.80% (17.29)	12.22% (18.53)	9.83%
2. Normal Cost for Disability	1.39	1.49 (1.41)	.93 (.96)	1.25 (1.18)	1.15 (1.11)	1.31
3. Normal Cost for Survivorship	2.06	1.98 (2.73)	1.20 (1.86)	1.52 (2.10)	1.42 (2.02)	1.73
4. Normal Cost for Death and Termination 2/	.16	.25 (.25)	1.60 (1.80)	1.11 (1.13)	1.27 (1.34)	.68
5. Past Service Cost 3/	6.95	4.41 (4.41)	6.51 (6.51)	6.54 (6.54)	6.53 (6.53)	5.08
6. Total Cost	19.50% 4/	16.41% (20.93)	23.36% (32.28)	22.22% (28.24)	22.59% 5/ (29.53)	18.63%
7. Average Attained Age	43	35	32	31	35	

1/ Weighted 32% Identified and 68% Non-Identified (or the rest). This weighting is applicable by number per Table 1 and also holds in terms of covered payroll.

2/ Provides for return of employee contributions for terminations with less than five years of service under Civil Service Retirement System, but under Proposed Agency Retirement System an employee with 5 or more years of service who terminated before the attainment of age 45 gets a minimum of one year's salary at his current rate.

3/ This is simply 3% of the actuarial deficiency for the non-retired group of employees. To the extent that there are funds on hand, this may be reduced by 3% of such funds; but on the assumption that roughly comparable funds would be allowable to the Project 10 Agency group and are relatively small anyway, this need not be considered for the purpose of comparing the resultant level of costs.

4/ This is 18.9% after taking into account the assets on hand, per the Thirty-Seventh Annual Report of the Board of Actuaries of the Civil Service Retirement System for the Fiscal Year Ended June 30, 1957.

5/ On the assumption that the identified group would be increased by 10%, such that 35% of the total group would be identified, which appears to be maximum possible error involved because of the way in which the data were made available, this would be increased to 22.62%, or an increase of about one-tenth of 1%.

projected to 1965 on the basis of certain published factors to take into account some measure of anticipated future improvement in mortality (T.S.A. IV).

C. Disability - A moderate rate of disability, on the assumption of a fairly strict administration of these benefits, was used. Appropriate disability annuity functions were also adopted. Since the turnover assumption was deemed to exclude disabilities who would be eligible for benefits, only a temporary disability annuity providing for benefits up to the applicable normal retirement age was assumed. This was done on the assumption that the reserve accumulated for the normal pension would be adequate to provide for the continuation of disability benefits after the normal retirement date.

No

D. Survivorship - Generally the female was assumed to be five years younger than the male, and all males were assumed to be married, this assumption being deemed to be adequate to provide for the cost of orphan's benefits as well as any lump-sum termination benefits after five or more years of service.

E. Retirement - Normal Retirement was assumed to be age 55 for the identified group (who could retire as early as age 50 after 20 or more years of service - of which 10 was overseas and 5 thereof with the Agency) and age 59 for the non-identified group who have a mandatory retirement age at 60 unless permitted by the Director to continue working beyond that age on a year-to-year basis, but not beyond age 70.

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We trust that the results of this valuation will be of assistance to you in connection with your consideration of the establishment of suitable pension arrangements for your group. At your instructions, we will be glad to expand on such items as you may feel desirable and to meet with you for discussion of these and related items.

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Exhibit A

PROJECT 10

Comparison of Specifications of Various Pension Plans & Comments Thereon

Item (1)	Federal Civil Service (2)	The Foreign Service (3)	Project 10 Proposed Agency Benefits (4)	Comments (5)
1. Effective Date	May 22, 1920; as amended to 10-1-56.	1924; 1946; as amended to 12-1-56.	To be arranged.	Project 10 proposed benefits are similar to those proposed for Foreign Service in 1958 (not adopted).
2. Eligibility (a) Employees (b) Years of Service (c) Age	(a) Civilian officers or employees in or under the Government, with certain exceptions. (b) No requirement (c) No requirement	(a) All Foreign Service officers (b) None (b) No requirement	(a) Career employees, career agents and contract employees who have been career employees and are covered under Civil Service. (b) No requirement (c) No requirement	The 1958 proposal for Foreign Service would have limited coverage to those employees appointed by the Secretary of State who had served at least 10 years of service in the Department's Foreign Service.
3. Entry	Immediate	Not applicable	Immediate	
4. Restrictions as to Membership (a) Present Employees (b) Future Employees (c) Continuance	(a) Automatic (b) Automatic (c) Automatic	(a) Compulsory (b) Compulsory (c) Compulsory	(a) Automatic (b) Automatic (c) Automatic	Automatic coverage is desirable.
5. Normal Retirement Date (N.R.D.)	(a) Age 62 and 5 years' service; age 60 and 30 years' service. (b) Age 70 and 15 years' service - compulsory.	(a) Age 65 for a career ambassador or a career minister. (b) Age 60 for others. (c) Age 50 and 20 years' service - optional.	(a) Voluntary after age 50 and 20 years of service of which 10 was overseas and 5 with Agency as career employee. (b) Involuntary at discretion of Director after age 55 and 25 or more years of service. (c) Compulsory at age 60, reappointment year-to-year by Director.	The earlier the retirement age the more costly the benefits.
6. Retirement Income at N.R.D.	(a) Sum of an accrual rate applied to highest 5-consecutive years average pay - for each of the following years of service: (1) First 5 years = 1-1/2%, or 1% plus $25 if larger. (2) Years 5-10 = 1-3/4%, or 1% plus $25 if larger. (3) Years in Excess of 10 = 2% or 1% plus $25 if larger. (b) Maximum: 80% of highest 5 consecutive years average pay.	2% of average pay for highest 5 consecutive years of contributory service times total years of service (Maximum 35 years).	(a) 2% of highest 5 years' earnings per year of service, ~~70% maximum for Employees meeting service requirements~~ of 5(a). [illegible] (b) For employees not meeting service requirements of 5(a), the Federal Civil Service formula in Col.(2) holds. This benefit is subject to reduction only to the extent that an employee works for another government agency and receives pay which together with his pension exceeds his rate of pay at retirement.	Note the 70% maximum where the 2% formula applies, compared with the 80% maximum of the Civil Service System for others. There are questions of policy and administration that would need resolving if an employee could receive a pension and continue working for the government (i.e., would he accrue benefit credits under same system?)

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Item (1)	Federal Civil Service (2)	The Foreign Service (3)	Project 10 Proposed Agency Benefits (4)	Comments (5)
7. Contribution by Employees	6-1/2% of pay. Additional contributions permitted up to certain limits.	5% of annual basic compensation. Additional permitted (1% w/10% of pay).	6-1/2% of pay. Additional contribution permitted up to certain limits as provided under Federal Civil Service.	The proposed Foreign Service amendments would change the 5% to 6-1/2%.
8. Early Retirement (Accrued Benefits) (a) Age & Service Requirement (b) Whose Election? (c) Actuarial Reduction?	(a) Employee election - age 55 and 30 years. (b) Involuntary - any age and 25 years, or age 50 and 20 years. (c) Yes, 1/12% per month for each of the first 60 months under age 60; plus 1/6% for each additional month under age 60.	None	If seperated as a result of unsatisfactory performance or selection out after age 45 and 5 or more years of service, immediate annuity is as determined by Federal Civil Service Formula, but is limited to 25% of salary at time of separation.	There may be considerable question about paying a person a pension as early as age 45 if selected out for unsatisfactory performance of duty.
9. Employment Beyond M.R.D.	(a) Retirement compulsory at age 70 and 15 years' service (unless President intervenes). (b) Benefit accrual and contributions continue up to actual retirement.	Under emergency may extend to age 65 (or 70 for career ambassadors and career ministers).	Compulsory at age 60 regardless of service, unless extended on year-to-year basis by Director, but may not be extended beyond age 70.	There may be some situations where a person could render valuable service after the attainment of age 70, as in other branches of the government (i.e., judicial and legislative).
10. Disability Retirement (a) Eligibility (b) Definition of Disability	(a) 5 years of service. (b) Determined by Civil Service Commission.	(a) 5 years of service. (b) Totally disabled in line-of-duty, but not due to vicious habits, intemperance, or willful misconduct.	Same as Federal Civil Service.	The definition of disability should be spelled out and should be administered carefully in order to keep costs in line.
(c) Amount of Benefit	(c) The earned annuity is payable, with a minimum of the smaller of: (1) annuity he would have earned assuming employment to age 60, or (2) 40% of 5-year average pay.	(c) Accrued benefit, without actuarial reduction, but assume at least 20 years service.		
11. Benefit in Event of Death Before Retirement	(a) Employee's contributions at interest, if less than 5 years' service. (b) After 5 years' service; widow's benefit equal to 1/2 of accrued benefit. (c) See 18. below.	(a) Employee's contributions at 4% interest. (b) If 5 years' service and if a widow per 13.(a), then benefit to her is what she would get if employee retired on his date of death with 20 years of service (if he had less) and elected maximum J & S under 13,(a).	Same as Foreign Service, except for reference to 13(a), which is not applicable.	The widows' benefit before retirement is fairly expensive, involving some 8% of the cost.
12. Benefit in Event of Death After Retirement	Children's benefit same as 18. below, plus any benefit payable under an option.	Employee contributions at 4% interest (to date annuity payments cease) less annuity payments made. According to option if elected, but return of contributions always guaranteed.	Same as Foreign Service.	No comment.

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Item (1)	Federal Civil Service (2)	The Foreign Service (3)	Project 10 Proposed Agency Benefits (4)	Comments (5)
13. Optional Mode of Settlement	Widow or widower - 50% of so much of employee's full accrued benefit as is designated by him. The reduction in his pension for this option is 2-1/2% of the first $2,400 of pension and 10% of excess.	(a) Special Joint and Survivor (J&S) option available for 30year wife or mother of issue, but widow's part to be elected cannot exceed smaller of (1) 25% of his 5-year average pay, or (2) 2/3 of his reduced annuity. See 1/ for computation. (b) Regular 100% and 50% J & S for other than wife. Option available to employee with no wife eligible for (a), subject to: (1) actuarial value same as normal retirement benefit, (2) minor's payments cease at age 21. (3) if beneficiary of employee not a child, employee must pass satisfactory medical examination.	Same as Federal Civil Service.	Since the survivorship option is not on an actuarially equivalent basis, involving at most one-half of the reduction called for by the actuarial factors, this may be an expensive option.
14. Employer Contributions (Unless otherwise specified, Company pays all expenses)	6-1/2% of employee's pay, plus additional appropriations as authorized.	Balance through Government appropriations	Same as Federal Civil Service.	Whether handled as a part of Civil Service or as a separate system would have a bearing on how this might be handled.
15. Withdrawal Benefit	Employee's contributions (no interest after 12-31-56 if more than 5 years of service). Vesting (deferred to age 62) after 5 years' service.	Employee's contributions at 4% interest; but special for withdrawals under certain circumstances.	Same as Federal Civil Service but with added proviso that on severance after 5 or more years of service while under age 45 because of unsatisfactory performance or selection-out, severance pay equal to one year's salary or return of contributions if greater is payable.	This could mean that an employee terminated after 5 years of service in the Project 10 Agency because of unsatisfactory performance or selection out might receive <u>less</u> than the value of the vested benefit available under the Civil Service program.
16. Fund Medium	Government, funds held by Treasury Department.	Fund maintained by Secretary of Treasury.	Same as Federal Civil Service.	
17. Miscellaneous (a) Interest credited to employee contributions	(a) 4% interest through 1947, 3% thereafter, except none after 12-31-56 if more than 5 years of service.	(a) 4%	Same as Federal Civil Service.	
1. Other Benefits	If death before or after retirement and if a wife or husband survives, each child receives an annuity equal to the smaller of:	None	Same as Federal Civil Service.	

[redacted]

PROJECT 10

Item (1)	Federal Civil Service (2)	The Foreign Service (3)	Project 10 Proposed Agency Benefits (4)	Comments (5)
18. Other benefits (Continued)	(a) 40% of average pay divided by number of children, (b) $600, (c) $1,800 divided by number of children. If no wife or husband survives, then the above benefits are increased 25% for (a), 20% for (b) and (c).			

1/ The employee's annuity is reduced by one-half of the amount to be payable to his widow, plus 2% for each year (or fraction thereof) over eight that his wife is younger than he. Employee can also have a further reduction made so as to have his original annuity restored upon the death of his wife.

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[redacted]

SECRET CONFIDENTIAL

27 JUN 1958

MEMORANDUM FOR: Deputy Director (Support)

SUBJECT: Project to Obtain Actuarial Advice in Support of Retirement Studies

1. This memorandum contains a recommendation submitted for DD/S approval. Such recommendation is contained in paragraph 5.

2. The CIA Career Council has under study the possibility of a new retirement system which might eventually be implemented through an amendment to the Civil Service Retirement Act or to the Central Intelligence Agency Act. The proposed retirement system will probably take into consideration overseas duty in order to permit those persons who have served overseas to retire at an earlier age than at present and possibily at a more advantageous rate of annuity.

3. The Council believes that the proposed retirement legislation must be ready for presentation to the Bureau of the Budget by November 1958 in order to receive favorable consideration during the 1959 legislative year. The presentation to the Bureau of the Budget, the Special Assistant to the President for Personnel Management, the Civil Service Commission and to appropriate committees of Congress will have to be supported by sound actuarial advice and statistics. While the Civil Service Commission and the United States Treasury have actuaries on their staffs for the purpose of maintaining and reviewing existing retirement systems, they are not available to help us to devise a new approach. Even the Civil Service Commission, when considering major changes in the Civil Service Retirement System, contracts outside the Government for actuarial service.

4. It is necessary for CIA to contract for actuarial services in support of retirement studies. The [redacted] was under contract to [redacted] to prepare the statistical background on the basis of which our present insurance programs are founded. The same actuaries of the Company who have worked for us in the past have current security clearances so that they may consider our problems. Informal discussions conducted by [redacted] with the Executive Vice President of the [redacted] have shown that its services would be available to us. It is estimated that the necessary studies can be conducted for a

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SECRET

SUBJECT: Project to Obtain Actuarial Advice in Support of Retirement Studies

maximum fee of $10,000. A proposed contract has been drafted by the Office of the General Counsel. The necessary confidential funds are available in the unexpended balance of the FY 1958 budget of the Office of Personnel.

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5. It is recommended that you approve: (a) the negotiation of a contract with the [redacted] to provide actuarial advice to the Office of Personnel in support of retirement studies for the Agency, and (b) the expenditure of confidential funds, not to exceed $10,000, for this purpose.

/s/ Gordon M. Stewart

Gordon M. Stewart
Director of Personnel

The recommendation in paragraph 5 is approved.

Signed

Deputy Director (Support)
30 JUN 1958

Date

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Originator: [redacted]
Deputy Director of Personnel for Planning and Development

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DD/Pers/PD:[redacted]:mg(27Jun58)